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EX PARTE OR LATE FILED June 3, 1998

Mr. A. Richard Metzger, Jr.  
Chief, Common Carrier Bureau  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Dear Mr. Metzger:

I am pleased to provide Sprint's response to your June 1 letter. You asked, specifically, that Sprint respond to the two questions set forth in the June 1 letter to Chairman Kennard from Senators Tom Daschle and Byron Dorgan.

The Senators' letter says the Commission is considering a range of options to change the Universal Service collection mechanisms. Sprint, of course, is among the carriers that have suggested improvements and alternatives to the current mechanisms, and we continue to urge the Commission to consider them. We appreciate that some customers have been confused by the current mechanisms, as pointed out by the Senators, but we honestly believe that the fault (if any) does not lie with most long distance carriers.

As we have repeatedly pointed out to the Commission and Members of Congress (1) the competitive long distance marketplace has extracted more in price reductions than all of the interstate access reductions, (2) that fundamentally changing the way some local telephone loop costs and Universal Service contributions are recovered was bound to force changes in the way long distance carriers billed their customers, and (3) there are certain other problems (such as local telephone companies loading virtually all of their Universal Service obligations onto access charges, so that long distance companies are shouldering about 90% of the burden) making the situation even worse.

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2

Mr. A. Richard Metzger, Jr.  
June 3, 1998  
Page Two

In any event, the Senators say that the Commission "is considering a plan that would terminate the current practice of local telephone companies passing their direct universal service obligations through to long distance companies in the form of access charge increases." The Senators say that such a change "would result in significant reductions in access charges and we want to ensure that those reductions benefit consumers." Thus, they ask these questions:

- (1) Can the Commission ensure that the long distance companies pass through to their customers the full benefit of these access reductions? Further, will residential customers, including basic schedule residential customers, receive proportionate reductions in their long distance rates?

Sprint believes the Commission can assure the Senators that the most efficient economic system in the world – the competitive marketplace – will ensure that cost savings will be reflected in lower prices to consumers. We have shown in recent months, using both our and the Commission's numbers, that long distance prices per minute have dropped more than access has been reduced; that result has been consistently produced not by regulatory fiat, but by the demands of consumers.

With respect to "basic schedule residential customers" (which we assume means those customers who do not avail themselves of the many competitive discounted calling plans available to them, and, therefore, pay the basic tariff rate), it is not consistent with competitive market principles to expect or require a "proportionate" reduction. In a competitive marketplace, competitors tend to use cost reductions as a basis for innovative pricing plans designed to attract new customers and to retain existing customers. It is only in a regulated monopoly in which dominant providers and their services are regulated (such as exists for ILEC local telephone services) that "proportionate" rate changes can be dictated. Years of experience in the long distance industry provide proof that competition works best to provide choices to consumers and to keep rates low. In Sprint's case, the customers

Mr. A. Richard Metzger, Jr.  
Page Three  
June 3, 1998

who choose to pay the basic tariff rate represent less than 2% of the minutes on our network each month.

While not intending to sound like a commercial, I would also like to add that Sprint's dime-a-minute rate (Sprint Sense) is our most popular residential offering not only because the price is low, but because it's readily and easily understood by consumers (in a world of otherwise confusing telephone rates). Residential customers who may be paying the basic tariff rate can switch to Sprint's dime-a-minute rate at any time by simply calling 1-800-PIN-DROP.

Moreover, Sprint would vigorously oppose any effort to change our dime-a-minute rate to any amount (like 9.675-cents-per-minute) that would be less customer friendly and convenient. Regulation in this instance could clearly harm a very creative and successful competitive innovation.

- (2) The various changes in customer's long distance bills in the last year have created a great deal of confusion among consumers. If the Commission were to direct local telephone companies to recover their universal service contributions directly rather than through increasing access charges on long distance carriers, what changes, if any, will long distance carriers make to their bills? For example, will carriers continue placing line items identifying costs for universal service programs on long distance carriers' bills? If so, which customer's bill's?

Sprint has advocated from the beginning that local telephone companies under Price Caps should not be allowed to flow-through their Universal Service contributions as exogenous costs in interstate access charges. That puts 90% of the burden on long distance carriers, which is contrary to the mandate in the Telecommunications Act that all carriers should share the burden in a fair and competitively neutral fashion. If the Commission were to prevent local telephone companies from shifting their burden to

Mr. A. Richard Metzger, Jr.

Page Four

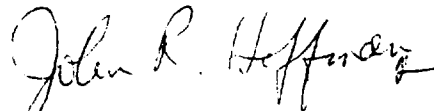
June 3, 1998

competitive long distance companies, the cost to long distance companies should be reduced. The Universal Service costs in access should be almost halved, but it remains to be seen how much access rates overall are reduced.

That calculation, though, would not necessarily change the amount of Universal Service costs imposed directly on long distance carriers by the Universal Service Administration Corp (USAC). The USAC bills carriers a percentage of their revenues each month; that is the amount that Sprint presently collects from business customers via a monthly surcharge. That is different and apart from the local telephone companies' Universal Service costs which are passed along to long distance carriers in access charges. If the access charges are reduced, as explained above, the rates charged in the marketplace will surely reflect those savings. But, the Universal Service surcharges would, presumably, change only if and when the USAC changes the amount charged to carriers for their Universal Service contribution each month.

We hope these responses are helpful as the Commission prepares to reply to Senators Daschle and Dorgan. If we can provide any other information, please let me know. Thank you.

Sincerely,

A handwritten signature in cursive script, reading "John R. Hoffman".

John R. Hoffman